

VZCZCXRO4528
PP RUEHIK
DE RUEHSI #1998 3141424
ZNR UUUUU ZZH
P 101424Z NOV 09
FM AMEMBASSY TBILISI
TO RUEHC/SECSTATE WASHDC PRIORITY 2406
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY

UNCLAS TBILISI 001998

SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [PGOV](#) [PREL](#) [GG](#)
SUBJECT: GEORGIA: DESERVING OF A SECOND MCC COMPACT

¶1. (SBU) Summary Since its Millennium Challenge compact came into effect in April 2006, Georgia has consistently performed well in implementation and has strived to maintain and improve upon MCC indicators. Georgia's strong performance in implementing the current compact underscores that the MCC model has been a particularly effective tool to encourage and reinforce reform in Georgia. The MCG Supervisory Board, chaired by the Prime Minister himself, is actively engaged in decision-making and oversight. The MCC scorecard process directly corresponds to and complements U.S. policy goals of promoting stability and strengthening transparency and good governance in the region. In Georgia, the MCC compact and its indicators are powerful and strategic tools for the U.S. to influence Georgian decision-making and encourage responsiveness to the population. MCC allows Georgia to deliver its own programs that are crucial to building indigenous capacity and creating long-term economic growth. Given Georgia's performance to date, Embassy Tbilisi believes that if the U.S. decides to offer countries the opportunity to compete for second compacts, Georgia would be an excellent candidate. End Summary.

HIGH-LEVEL COMMITMENT

¶2. (SBU) Implementation of the MCC Compact in Georgia has been a joint effort. The MCG Supervisory Board, chaired by the Prime Minister, is actively engaged in Compact management and oversight. The Georgian Government and the private sector often point to the Compact as a successful bilateral, as well as public-private, partnership. The government continues to engage with MCC on the country's performance and to inquire about a second compact. Georgia provided a tangible example of this commitment when it was elevated to a Lower Middle Income Country in 2008 and it quickly found itself failing on many of the MCC indicators. Even though the GoG understood this was due to a shift in the playing field, the government quickly undertook a strategy to overcome these shortcomings. Georgia's 2009 scorecard showed significant improvement. The country only found itself failing in &Investing in People8, which was due in part to inability to increase investment in education and healthcare due to falling government revenues resulting from the global financial crisis. Georgia continues to take MCC indicators and its international image seriously.

WHERE, WHY AND HOW TO ENGAGE?

¶3. (SBU) Georgia is keen to explore the possibility of a second MCC compact. As MCC begins to explore the possibility of second compacts, the Mission suggests that MCC build upon its existing spirit of cooperation with the GoG, to have open and honest conversations with the Georgians about the likelihood for a follow on agreement and what such a Compact might look like. Early engagement on second Compact discussions would offer the opportunity to link Compact award to continued and improved policy performance. Areas within the MCC indicators where Georgia continues to struggle, such as education and health, would be a natural starting point

for future compact discussions. This will also help the Georgians look beyond immediate post-war needs to long-term solutions necessary for continue economic and social development. Healthcare and education are also areas in which the GoG is interested in leveraging private sector engagement; creating possibilities for MCC grant funding to leverage significant policy commitments and shared investments.

THINKING BEYOND THE WAR

14. (SBU) Following the August conflict, Georgia received significant amounts of international assistance to recover from the war. Most, if not all, of this assistance will be used in the next two years and will go to address immediate humanitarian-related needs and promote stability. A follow-on MCC Compact would come to Georgia just as much of the current assistance efforts would conclude. It would also force the Government to look beyond immediate needs to the underlying fundamental reforms necessary to take the next steps towards establishing a modern economy. Although post-conflict assistance has been crucial to Georgia, it does not replace the role a second, focused Compact could play in Georgia's future.

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